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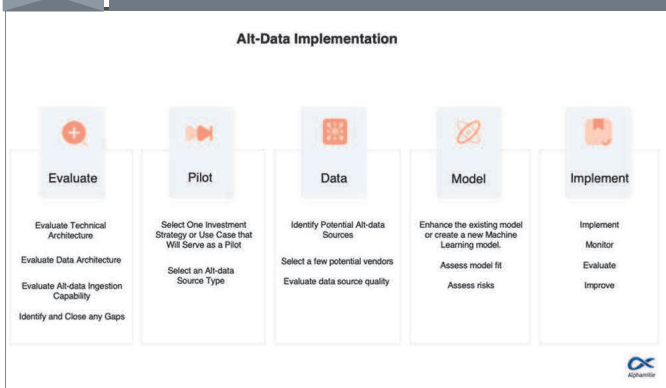
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## 5-STEP ALTERNATIVE DATA MODEL FOR ACCELERATED VALUE CREATION



By Julia Valentine, MBA

Much like private equity funds and hedge funds, many family offices make private direct investments or hold large public equity positions.

Decisions around entering, maintaining and exiting these investments can be enhanced with the use of alternative data—that which provides a valuable window into the market or consumer behaviour and supplements traditional financial information available through annual fiscal reports and exchanges.

Satellite data can track shipments and parking lots. Credit card data can illuminate who's spending what and where they're spending it. The most obvious way family offices and investment funds can gain an informational advantage is through incorporating alternative data into their investment process or even by developing a proprietary way to collect data to gain an informational advantage.

Desire to incorporate alt-data vs the complexity of implementation

While alpha generation is important, and many family offices are interested in incorporating at least some alt-data into their investment process, many are deterred by the complexity of implementation. There are currently over 400 alternative data providers on the market offering a wide variety of data. The quality of the information that can be bought differs greatly. Many family offices wonder if their current infrastructure is sufficient for the introduction of large data sets, machine learning models and data analytics required to produce meaningful insights.

The five-step alt-data implementation model  
Family offices that haven't yet developed the expertise of incorporating alt-data into their investment process can adopt this five-step accelerated model. The key

idea is to identify one investment strategy that can benefit from the introduction of the alt-data concept and use it as a pilot.

### Step 1. Evaluate Current State

The first step is to evaluate the technical and data architecture. It needs the basic capability of connecting to an alt-data source, as well as some basic data analytics and reporting capabilities. Some family offices have introduced machine learning models into their data analytics. While the pilot will not require a mature and sophisticated infrastructure, some basic infrastructure is required and can be introduced quite easily.

### Step 2. Identify the Pilot Investment Strategy

The second step is to identify an investment strategy or a use case that will benefit from the introduction of alt-data. Then, identify the type of alt-data—satellite data, credit card data, etc.—that can add the result that will ultimately generate alpha. For example, an impact portfolio might benefit from adding core ESG data for private companies, including board and management team composition (male vs female, etc.)

### Step 3. Find the Alt-Data Source

With over 400 alt-data providers on the market, it is easy to narrow down the potential vendors or platforms that can be used. When a short list of these is created, it is essential to evaluate the data source quality and coverage. For example, some of the board and management team data for private companies cannot be bought, but it can be collected by multi-modal AI (the search of text, video, picture and audio records across any public information source). Female founders, faith-based private company founders and similar deal sourcing requirements can be easily fulfilled through the application of multi-modal AI.

### Step 4. Enhance the Existing Model

The additional alt-data can be used to enhance

the existing investment model, or a new machine learning model can be created. The thorough back testing and evaluation of the model fit is essential at this stage. If the process of machine learning is used, it needs to be sufficiently trained using large data sets. Predictions need to be evaluated, and risks also need to be assessed.

Step 5. Implement the New Investment Model  
After the new investment model is adopted, it needs to be monitored and continuously improved.

The proprietary informational advantage is difficult to obtain. While the data universe has been growing, extracting wisdom and insight from the available data remains a difficult endeavour. It is, however, a way to generate alpha as data will continue to gain importance in the 21st Century. In the words of Data synthesis CEO Christian Robertson: "Monetizing data is the future."



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